

**Congressman Jim Kolbe
8TH DISTRICT ARIZONA**

**Congressman Charlie Stenholm (D-TX)
17TH DISTRICT TEXAS**

PRESS RELEASE

For Immediate Release
February 11, 2004

Contact:
Neena Moorjani (Kolbe): 202-226-1042
Anne Keller (Stenholm): 202-225-6605

**KOLBE, STENHOLM: TOUGH CHOICES ON SOCIAL
SECURITY CANNOT WAIT**

*LAWMAKERS INTRODUCE 5TH BILL IN 10 YEARS ADDRESSING
FISCAL CHALLENGES FACING SOCIAL SECURITY*

Washington, DC - At a press conference in Washington, D.C., Reps. Jim Kolbe (R-AZ) and Charlie Stenholm (D-TX) announced that this week they will introduce the *Bipartisan Retirement Security Act (BRSA)*, a bill to restore solvency to the Social Security program. This is the 10th year that Kolbe and Stenholm, with a combined Congressional experience of nearly half a century, have combined efforts to spur action to save Social Security.

In less than 15 years, Social Security will be paying out more money in benefits than is being taken in through payroll tax revenues. The *Bipartisan Retirement Security Act* is a comprehensive plan that addresses this impending cash deficit by maintaining the best features of the current system and adding personal accounts, an innovative feature that will provide all Americans an opportunity to build a nest egg for retirement. This is the only bipartisan Social Security reform proposal in Congress.

“We can either make tough choices today that deal honestly with the challenges facing Social Security or we can continue the “third rail” politics which leave a fiscal time bomb for our children and grandchildren,” said Kolbe. “There are legitimate differences of opinion on the best way to reform Social Security but we all should be able to agree that this program needs to be fixed.”

“If we do not address the financial challenges facing Social Security, future Congresses will be forced to cut other important government programs, raise additional taxes or issue massive amounts of new debt to meet the obligations to our senior citizens,” said Stenholm.

Legislation Highlights

- Has been scored by the Social Security Administration actuaries as restoring solvency of the trust fund for 75 years and beyond and putting the Social Security system on a fiscally sustainable course
 - Has bipartisan support
- 1 Meets the criteria for reform established by the President's Commission to Strengthen Social Security
 - Strengthens the government safety net for low-income workers
 - Does not increase payroll tax rates; reduces pressures on general revenues
 - Preserves existing benefits for current and near-retirees
 - Drastically lowers Social Security's cash shortfalls over the next 75 years by nearly two thirds in present value terms, from \$5 to \$1.65 trillion trillion, reducing budgetary pressure which would require increased taxes, decreased benefits, or reductions in other government priorities
 - 1 Does not rely on accounting gimmickry or unspecified general revenue transfers
 - 2 Honestly accounts for transition costs
 - Provides individuals with ownership of and control over part of their retirement assets -- including the freedom to invest in safe, risk-free Treasury securities
 - Increases the rate of return for all workers. Establishes the opportunity for all Americans to create wealth
 - Gives low and moderate income workers the opportunity to benefit from investment opportunities that higher income workers with 401(k) plans and mutual funds already have

Kolbe-Stenholm Bipartisan Social Security Reform Bill

- Strengthens the Social Security safety net while creating the opportunity for all Americans to accumulate real wealth through individual accounts.
- Restores the solvency of the Social Security trust fund and places the program on a sustainable long-term path that will remain strong in perpetuity.
- Allows workers to redirect 3% of their first \$10,000 of earnings and 2% of their remaining taxable earnings (\$87,900 in 2004) into their individual accounts.
- Supplements individual accounts for low-income workers - the government would match 50% of the individual account contributions for low-income workers, (phased out for workers with incomes over \$30,000 a year).
- Uses the Thrift Savings Plan - Plus model for administering individual accounts. Individual accounts would initially be invested in a system modeled after the Thrift Savings Plan. Once a worker's account balance reaches \$7,500, they would have the option to choose a private investment institution.
- Makes benefit changes in a progressive manner through benefit formula changes that affect middle and upper income workers, who will benefit the most from the opportunity to accumulate funds in individual accounts.
- Makes changes in the benefit structure which will lift more workers out of poverty than current law by strengthening the safety net for low-income workers. Adds a new minimum benefit and makes the Social Security benefit formula more progressive for low and moderate income workers.
- Corrects the Consumer Price Index used to index Social Security benefits and other government programs as well as the tax code, and recaptures all of the savings from the correction for the Social Security trust fund.
- Makes adjustments in the benefit formula to reflect increases in life expectancy.
- Rewards work by eliminating the earnings test, counting all years of earnings in calculating benefits and improving the actuarial adjustment for early/delayed retirement.

THE BIPARTISAN RETIREMENT SECURITY ACT
A Comprehensive, Bipartisan Plan to Save Social Security

Congressmen Jim Kolbe (R-AZ) and Charlie Stenholm (D-TX)
108th Congress

- Has bipartisan support
- Meets the criteria for reform established by the President's Commission to Strengthen Social Security
- Has been scored by the Social Security Administration actuaries as restoring solvency of the trust fund for 75 years and beyond and putting the Social Security system on fiscally sustainable course
- Preserves the existing benefit promises for current and near-retirees
- Establishes the opportunity for all Americans to create wealth
- Provides individuals with ownership of and control over part of their retirement assets -- including the *option* to invest in risk-free Treasury securities
- Does not increase payroll tax rates
- Increases the rate of return for workers
- Enhances progressivity of Social Security and the government safety net
- Reduces Social Security's cash shortfalls by two-thirds over the next 75 years in present value terms from \$4.9 trillion to \$1.65 trillion, reducing budgetary pressure which will require increased taxes or reductions in other government priorities
- Does not rely on accounting gimmickry or unspecified general revenue transfers
- Honestly accounts for transition costs

THE BIPARTISAN RETIREMENT SECURITY ACT
A Comprehensive, Bipartisan Plan to Save Social Security

Congressmen Jim Kolbe (R-AZ) and Charlie Stenholm (D-TX)
108th Congress

Create Individual Security Accounts

- **Redirect payroll taxes.** Workers would redirect 3% of their first \$10,000 of earnings and 2% of their remaining taxable earnings (\$87,900 in 2004) into their Individual Security Accounts. The \$10,000 level would be indexed each year by average wage growth.
- **Allow voluntary contributions.** Individuals would be permitted to save up to an additional \$5,000 per year through voluntary contributions to individual accounts. The limit on voluntary contributions would be indexed by inflation.
- **Provides an additional tax credit for low-income workers.** Workers who make voluntary contributions would receive a tax credit -- to be deposited into their personal accounts -- equal to \$150 plus 50% of all voluntary contributions up to a cap of \$600 per individual per year. This credit is phased out for workers with incomes over \$25,000 a year.

Since the working poor largely are unable to save out of disposable income, this legislation would allow workers to divert a portion of their Earned Income Tax Credit (EITC) into their individual account and qualify for the additional tax credit.

- **Use the Thrift Saving Plan—Plus model for administering individual accounts.** To minimize employer burdens and administrative costs, the individual accounts would be modeled on the federal government Thrift Savings Plan (TSP). Funds would be managed by the Individual Security Fund Board through a competitive bidding process. The Individual Security Fund Board will be responsible for all account recordkeeping and maintenance. The TSP model will allow individually owned accounts to benefit from economies of scale and minimize employer burdens and administrative costs of individual accounts.

Investment options in the TSP plan would include a stock index fund, a bond index fund, a Treasury securities index fund, a small cap stock index fund and an international stock index fund. Individual accounts could be invested in any combination of the five funds. Workers would have the option of keeping individual account funds in the same low-risk Treasury securities where Social Security funds are invested currently. However, workers could choose to place their individual account contributions in one of the investment funds that offers the potential of a higher rate of return.

Once a worker's account balance reaches \$7,500, they would have the *option* to choose a private investment institution to invest their individual account funds. Workers would have to affirmatively choose to leave the TSP model plan and join the private alternative. A worker who is happy with his or her investment options in the TSP model plan would simply do nothing to continue in their current investments. The Individual Security Fund Board would be responsible for maintaining individual account records and combine account transactions with private investment firms in aggregate amounts.

In order to minimize risk in the private investment alternative, financial institutions would be regulated by the SEC to ensure strict financial soundness and financial reporting requirements. Financial institutions (including investment firms, credit unions, and insurance companies) would offer broad based, diversified investment funds with low administrative costs. The SEC's regulatory approval would be based on the fund's administrative fee structure, risk profile, and appropriateness as a retirement investment vehicle. The TSP-Plus model offers workers the option of expanded investment opportunities but does not force anyone to take on additional risks.

- **Choice of withdrawal options at retirement.** Workers would have a variety of options for distribution of the funds in their individual account. At retirement, workers would not be required to annuitize their individual account balance unless they wished to receive a lump-sum distribution from their account. To receive a lump-sum benefit, a retiree must first annuitize a portion of their account, which added to their traditional defined benefit from Social Security, would provide a monthly income equal to at least 185% of the poverty-level. Retirees are not required to withdraw non-annuitized balances upon retirement.
- **Tailored annuity options.** Individuals will be able to choose between a number of annuity plans that reflect the life needs of the individual. Annuities in the TSP type system would be offered through a competitive bidding process to ensure the lowest cost and best service for retirees. Workers who opted out of the TSP model system would be able to purchase an annuity either through the TSP option or through their private financial institution (investment firm, insurance company, credit union). Concerns about shorter life expectancies among the poor can be addressed by purchasing either a life annuity, period certain annuity or a refund annuity.
- **Creation of estates.** Workers at all income levels would be able to leave the remaining assets in their individual account to their heirs upon death. The ability to leave assets to their heirs would be especially beneficial for low-income workers who have shorter life expectancies.

Changes in defined benefit system to reduce liabilities and to offset individual accounts

Impose progressive changes in the current benefit formula. Slowly phase in changes to the benefit formula beginning in 2012 to reduce initial defined benefit levels to correspond with the opportunity to benefit from individual accounts. The savings from these changes in the defined benefit formula offsets the actuarial impact from diverting payroll taxes into individual accounts. The retirement income workers will receive from the balances accumulated in his or her individual accounts will be greater than the reduction in guaranteed benefit under this provision.

The 32 and 15% PIA factor would be reduced by 2.5% a year from 2012 through 2030. All three PIA factors would be reduced by 1.5% a year from 2031-2060. The changes in the benefit formula would affect primarily the defined benefit levels for middle and upper income workers, who will have a greater opportunity to benefit from individual accounts. Lower-income workers would not be subject to reductions in initial defined benefit levels until 2031, when changes to the benefit formula gradually begin to affect all workers. However, most low wage earners would continue to be unaffected by benefit changes because of the minimum benefit provision.

According to the Social Security Administration actuaries, if we fail to enact structural reform, benefits will have to be reduced by 27% in 2038. The benefit cut would increase to 33% by 2075 and continue to worsen. Workers would have no additional resources to make up for the benefit reduction.

- **Minimize Transition Costs** The lost revenue to the Social Security trust fund from diverting a portion of the payroll into individual accounts would ultimately be offset by corresponding reductions in the defined benefit system. There are transition costs associated with the fact that the reductions in the defined benefit system are phased in to give workers an opportunity to accumulate individual account balances. However, these transition costs are partially offset by increased revenues to the trust fund.
- Under this bill, Social Security would begin running annual cash deficits in 2014 (four years earlier than current law) and the Social Security Administration will have to begin redeeming the bonds in the trust fund. SSA would continue to redeem the bonds in the trust fund to finance the transition to the new system. However, the trust funds would never be fully depleted and the Social Security system would not have to rely on “loans” from the general fund that it would be required to “pay back” in later years.
- **Set ceiling on taxable earnings at 87%.** Adjust the taxable wage base to set the wage cap at a level which ensures that 87% of taxable payroll is covered by FICA taxes. Since 1983 reforms this level has fallen from 90% to 83.1% of taxable payroll. This provision will affect only workers with earnings over \$87,900 in 2004. The higher wage cap would apply to the 2% carve out for individual accounts as well. Setting the ceiling at 87% helps offset the short term revenue loss from redirecting a portion of payroll taxes into individual accounts.

Strengthen Safety Net and Improve Progressivity of Benefit Structure

Guaranteed Minimum Benefit

- **Establish a new minimum benefit provision.** Create a guaranteed minimum benefit for low-income workers more robust than current law. Social Security beneficiaries with at least 20 years of covered earnings would receive a benefit equal to 80% of the poverty level. This benefit would increase by 2% of poverty for each year of covered earnings, until the guaranteed minimum benefit reaches 100% of the poverty level for individuals who worked 30 years and 120% of the poverty level for individuals with 40 years of work.
- **The minimum benefit would be calculated without regard to any other benefit changes,** thereby shielding low-income recipients from adverse effects of other measures taken to restore the Social Security system to solvency. Any income from the individual accounts would supplement this guaranteed benefit.

Boost the replacement rate for low-income workers

- Gradually phase in actuarially neutral changes to the PIA factors to make the benefit formula more progressive and to assist low-income workers who do not benefit from the new minimum benefit. The 32% PIA factor is split into 20% and 70% factors. The new (unreduced) PIA factors would be 90%, 70%, 20%, and 10%. Creating the new PIA factor would not cost the Social Security system a dime while enhancing benefits for low-income workers.

Disability and Survivors' Benefits

- **Shield disability benefits from changes in benefit formula.** The changes in the defined benefit formula would not apply to disabled workers until they convert to retired worker status at the normal retirement age. When a disabled individual converts to retired worker status and gains access to their individual account, their defined benefit would be adjusted based on the changes in the PIA formula described above, modified by a “disability factor” to reflect the number of years the worker was able to contribute to an individual account before becoming disabled.

A disabled worker with 20 years of work history would receive roughly half the reduction in their defined benefit as a full career worker. A young disabled worker who had a limited opportunity to contribute to individual accounts prior to becoming disabled would receive a very limited reduction. However, a worker who becomes disabled very near retirement would receive nearly the same reduction as a full career worker when they reach the normal retirement age and have access to their personal account.

- **Shield survivor's benefits.** Survivors would be eligible for the same fraction of the retired worker's benefit as under current law. In addition, survivors could inherit their spouse's individual account balance.

- **Widow's benefits** would be increased to 75 percent of couple's previous benefit (versus only 50-67 percent under current law). Spousal benefits, which disproportionately benefit higher income couples, would be limited so that the combined benefit of a couple could not exceed the maximum individual benefit.

Other Changes to Restore Solvency and Modernize Social Security

Rewarding work

- **Count all years of earnings in calculating benefits.** Include all years of earnings in the benefit formula in order to reward individuals for all income that they earn even if it is not among their highest 40 years of lifetime earnings.
- **Change the benefit formula to reflect the longer working lives.** Gradually increase the number of computation years in determining benefit levels from 35 years to 40 years to reflect longer working lives. For two-earner couples, however, this legislation would cap the benefit computation period for the lower wage earner at 35 years. This will benefit spouses who leave the workforce for child rearing or other purposes.
- **Improve the actuarial adjustment for early and delayed retirement.** Currently, the delayed retirement credit does not compensate workers for the years of additional payroll taxes individuals pay while working past the Normal Retirement Age. This legislation would revise the actuarial adjustment for early/late retirement to reflect this.

Other provisions to achieve and preserve solvency

- **Modify benefit formula to reflect increases in longevity.** Create an actuarial adjustment to the benefit formula. The life expectancy actuarial adjustment would automatically adjust initial benefit levels based on a formula that reflects the increased number of years individuals will live after reaching the Normal Retirement Age (NRA) and begin receiving benefits. Total amount of benefits that individuals receive over their retirement years remains constant over time. This provision has the same effect of indexing the NRA by life expectancy.
- **Provide for more accurate indexation by corrected Consumer Price Index based on Bureau of Labor Statistics calculations.** The Bureau of Labor Statistics has begun to publish a superlative index, the Chained Consumer Price Index (C-CPI) which is intended to correct for upper level substitution bias in the regular Consumer Price Index. The C-CPI is published with a time lag of approximately 18 months after the regular CPI-U. The bill would determine the BLS estimate of upper level substitution bias by calculating the difference between the most recent C-CPI published to the C-CPI-U for that year.

That difference -- the "CPI adjustment factor" -- would be applied to the CPI-U for indexation of Social Security benefits, other benefit programs and provisions in the tax code that are indexed to CPI. For example, the CPI adjustment factor for 2004 would be determined by calculating the difference between the published CPI-U in 2002 and the C-CPI-U that will be published this summer. That difference would be applied to the CPI-U for 2004 in determining COLAs and other indexation for next year. BLS estimates that the difference between the C-CPI-U and the regular CPI-U will be 0.22% a year.

The CPI adjustment factor would be applied to all provisions in law that are indexed to CPI, including other benefit programs and provisions in the tax code. The savings that this adjustment achieves in the non-Social Security budget would be transferred to the Social Security Trust fund.

- **Recapture lost revenues.** Credit all revenue from taxation of benefits to Social Security. The 1993 budget reconciliation bill diverted a portion of the tax revenue levied on Social Security income to the Hospital Insurance Trust Fund. Between 2010 and 2019, this legislation would slowly phase in the redirection of these taxes back to the Social Security Trust Fund where they belong.
- **“Fail-safe” mechanism.** Protect the program from once again falling out of balance by requiring Congress and the President to consider changes to the program on a timely basis whenever projections show deteriorating fiscal health for the trust fund.